VZCZCXRO3067
OO RUEHBC RUEHKUK
DE RUEHDIR #0025/01 0321417
ZNY CCCCC ZZH
O 011417Z FEB 10
FM IRAN RPO DUBAI
TO RUEHC/SECSTATE WASHDC IMMEDIATE 0060
INFO IRAN COLLECTIVE IMMEDIATE
RHEHNSC/WHITE HOUSE NATIONAL SECURITY COUNCIL WASHINGTON DC IMMEDIATE
RUEAIIA/CIA WASHINGTON DC IMMEDIATE
RUEHAD/AMEMBASSY ABU DHABI IMMEDIATE
RUEIDN/DNI WASHINGTON DC IMMEDIATE
RUEKJCS/SECDEF WASHINGTON DC IMMEDIATE
RUMICEA/USCENTCOM INTEL CEN MACDILL AFB FL IMMEDIATE
RUEATRS/DEPT OF TREASURY WASHINGTON DC
RUEHDE/AMCONSUL DUBAI

C O N F I D E N T I A L SECTION 01 OF 02 RPO DUBAI 000025

SIPDIS

E.O. 12958: DECL: 2020/02/01
TAGS: PGOV IR ECON
SUBJECT: IRAN: COMMODITY TRADER SAYS SANCTIONS GOOD FOR BUSINESS

CLASSIFIED BY: Charles Pennypacker, Consular Officer, DOS, IRPO;
REASON: 1.4(B), (D)

¶1. (C) SUMMARY: A Dubai-based plastics commodity trader contends that sanctions related to financing trade make doing business with Iran more lucrative, as Iranian importers are used to paying a premium to skirt them, and Iranian exporters (state-owned) prefer to sell plastic on the international market (instead of to domestic buyers) as a means to earn foreign exchange. As a result, he earns a profit from both Iranian importers and exporters. Banking sanctions have forced changes in how he settles accounts, but trade in commodities like industrial plastic, with numerous international buyers and sellers in a single transaction, make sanctions difficult to enforce. As such, our contact believes that further sanctions will no doubt make it more expensive for Iranians to conduct trade but will not deter business with Iran. To the contrary, they will give him reason to increase his margins. END SUMMARY.

IRANIAN IMPORTERS

¶2. (C) EconOff recently met with a Dubai-based plastics commodity trader who over the past several years has established a network or international buyers and sellers of industrial plastics. Our trader contact started selling plastic into Iran five years ago and has been surprised by the large number of Iranian buyers. Buyers represent a broad swath of manufacturers seeking various types of plastic polymer inputs for a diverse set of plastic products; many more manufacturers than he expected, he said. He claims an additional reason that the market for plastics imports is so large is due to manufacturers' preference for international instead of domestically produced plastic polymer. They often prefer higher-cost imported to lower-quality domestically produced plastic polymers, making Iran a net importer of plastics, according to our contact. Additionally, he argued, a good amount of the plastic manufacturing in Iran is delivered on an inconsistent schedule by inefficient state-owned enterprises making it an unreliable source for many manufacturing processes.

IRANIAN EXPORTERS

¶3. (C) Considering the low cost of energy in Iran, our contact said he initially thought Iranian producers of plastic polymers would be a very viable source for domestic manufacturers even with an inconsistent production schedule and sometimes inferior product. Instead, he discovered Iran's domestic, state-owned plastic producers (as a result of government policy) prefer to dump their product at cheap prices on the international market rather than sell to internal buyers as a way to build foreign reserves and cope with international sanctions. Asked about how exporters can justify exporting instead of selling to domestic buyers given the additional cost of shipping product overseas, our contact replied that the transportation cost to Iranian producers was nominal

because so many imports came into Iran and vessels often leave empty. For our contact, the volume of business from Iranian plastics' producers generated unexpected revenue and he is making a profit from the flow of plastics in and out of the country.

HOW A DEAL GETS DONE

¶4. (C) Through the forty years his family has been doing business in Dubai, government regulations that have improved the business climate here are the same ones that improve his ability to do business with Iran. For example, our contact said three years ago he kept bank accounts at the Dubai branches of Bank Sedarat and Bank Melli in order to make sure that when he presented a letter of credit from one of these banks, he would be paid the same day (as funds would only transfer from one account to another within the same bank). Last year, the Central Bank of the UAE circulated a new regulation that requires payment within twenty-four hours between banks in the UAE. As a result, he can take a Bank Melli letter of credit from an Iranian customer and present it at his local bank (e.g. Dubai Bank) and receives the funds within 24 hours. (COMMENT: Our contact did note that Iranian buyers concerned about where sanctions are headed and cognizant of increased scrutiny by UAE authorities have started to pay in cash in advance of a shipment, a great deal for the trader but creating an additional risk and cost for the buyer. END COMMENT.)

HOW SANCTIONS HELP NET HIGHER MARGINS

¶5. (C) Our contact claims to have seen large amounts of

American-made plastics and chemicals at the Bandar Abbas port on his visit to Iran but he claimed he had distanced himself from trading in American goods with Iran. When asked how such trade occurs given the sanctions in place, our contact argued that in the trade of commodities, sanctions enforcement is difficult for regulators to enforce. Unlike other manufactured goods, commodity trading does not require the seller to have an end point for delivery. With numerous buyers and sellers along the way there is little government authorities can do to determine a commodity's final end point, he argued.

¶6. (C) As a result, commodities like industrial plastic will not move directly from the point of origin to Iran but may pass through several hands first. Physically, the products will transit only once through a place like Dubai. The numerous transactions and physical stopovers make the purchase price more expensive for Iranian buyers, but this is something "they are used to" he argued. This means that he is also often able to collect a higher margin even though he is not facilitating trade of American plastics. For example, on a "back-to-back" sale where he sells to another buyer who will deliver Saudi-produced plastic polymer to Iran, he will earn a 4.5 percent margin for profit. If he delivers the goods directly to the Iranian importer, he will look to earn a 10 percent profit on the transport cost. Iranian buyers rarely question these substantial transport costs. He discussed a current contract in which he was moving a large volume of polyvinyl chloride (PVC) from Taiwan to Iran. The cost of transiting the product through Dubai and then onto to Iran would add an additional USD 5 cost per metric ton; having the product imported to Dubai, inspected, and then re-packaged to Iran would add USD 25 per metric ton. If the Taiwanese company agreed to include Bandar Abbas as the final point (negating the USD 25 per metric ton Dubai customs charge), he would still pass that charge onto his Iranian customer.

¶7. (C) COMMENT: As our contact's business transactions demonstrate, evading sanctions on trade finance is costly for Iranian buyers and profitable for those willing to facilitate it. The same applies to Iranian sellers who are willing to lose a bit of profit in order to earn foreign exchange. In a more efficient and non-sanctioned economy, Iranian buyers and sellers would be more likely to trade with each other. In the absence of one, Iranian importers and exporters seem willing to bear the costs and conduct business in a manner that weakens their own economy and passes the higher cost to domestic consumers. END COMMENT.
EYRE